

# The politics of Ghana's budgetary system

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This paper offers a political-economy analysis of the expenditure side of Ghana's budgetary system. It starts by setting out evidence on the workings of the present system and then asks why the revealed large failings are tolerated. It offers a political answer to that question and then sets the situation in the wider context of the condition of the public service and the reasons for its continuing parlous state. It concludes by speculating on what might be the drivers of budgetary change in Ghana.

The main themes of the paper are (a) on the expenditure side, the budgetary process is so weak as to be essentially ritualistic, with limited bearing upon reality; (b) there is a major 'democratic deficit' in budgetary processes which helps explain why such a weak system continues to be tolerated; (c) the problem is compounded by the continuing system-wide deficiencies of the public service.

## *The expenditure budget as façade*

A government's ability to run its own budget is perhaps the most basic test of the capabilities of the state. How well does the contemporary Ghanaian state pass this test? Evidence specially gathered for this study finds that:

- *There are regularly large deviations between budget estimates and actual spending.* For the two principal Ministries for which we managed to get data the mean deviations were  $\pm 42\%$  (Education) and  $\pm 68\%$  (Health). Other

independent sources confirm the existence of large discrepancies.

- There were *strong systematic biases* in these outcomes. The budget under-estimates spending on salaries and over-estimates everything else. These biases not only show a malfunctioning of the budget system. They are also profoundly anti-developmental, for it is various non-salary expenditures which determine a ministry's ability to deliver outputs to the public. There are generally huge shortfalls in actual spending on such items.
- *There is evidence of large leakages in allocated funds between their release from the centre and arrival at the point of service delivery.* A pilot tracker study of expenditures by the Ministries of Education and Health found that an average of only 51% of the non-salary resources which the Ministry of Education thought had been allocated to any given primary school actually arrived there. About half of non-salary monies leaked out of the system. The position in Health was even worse. For non-salary items, clinics suffered a leakage of no less than 79%. Because of this, patients were forced themselves to pay more than half of the total cost of their treatment – much more than the Ministry had intended.
- Lastly, *there was no clear evidence of an improving trend* in the situation described above.

One question which arises is how the inefficiencies just described can be reconciled with the proven ability of governments to maintain overall expenditure control for macroeconomic management. While the fiscal record in this area is patchy, successive governments have shown that, when they have a mind to do so, they are able to avoid inflationary deficits. In particular, the NPP administration has done this quite well in most years. The answer is that overall control is reconciled with inadequate expenditure control systems by *cash budgeting*. Expenditures are only authorised when the exchequer actually has the money to cover the spending. This is a device which has been used elsewhere too

and is a sensible way of coping in the face of a weak budget system. However, it is also, by common consent, a highly inefficient way of ordering the public finances. It means that line MDAs are unable to plan ahead and have little or no control over the resources allocated to them.

The alarming situation described above suggests that the expenditure budget is largely a ritualised façade, bearing little relation to actual state spending. In the most basic of its tasks – running its own budget – the state is revealed as seriously deficient, a defect which has persisted over successive governments. The budget had more meaning in earlier decades but has since deteriorated. How might we understand the forces underlying this deterioration and the reasons why present weaknesses are tolerated in an otherwise rather sophisticated society? Why are there not stronger pressures for improvement from within the polity and civil society?

### *Why are the failings tolerated?*

First, there is the closed, non-transparent nature of the budget preparation process. There are currently eight stages in this process (see Box 1).

As can be seen, these are conceived entirely as closed-door, intra-governmental processes, from which the wider public and interested non-state parties are largely excluded.

What about Ghana's Parliament? Does it make good the democratic deficit? Parliament, of course, has to approve the budget and it has constituted a Finance Select Committee to undertake detailed scrutiny of budget proposals. By general consent, however, Parliament has been unable to exercise effective scrutiny and control. Timetabling is part of the problem: the budget comes to it too late for detailed consideration. Another part of the problem is shortages of the supporting resources that would be necessary if Parliament were to be able to do its job properly. It is unable to hire expert advisers and does not have enough information with which to do the job properly. In consequence of these deficiencies, Parliamentary scrutiny tends to be hurried, superficial and partisan.

Inadequate flows of information are not just a problem for Parliament.

### **Box 1: The Budget Process**

The budget process is currently made up of eight steps, beginning in May and ending in November.

#### Step I: Macro-Economic Framework

The development of a macroeconomic framework which forecasts aggregates like GDP, domestic revenue and the availability of donor resources. It primarily involves personnel in the Ministry of Finance and Economic Planning (MFEP), assisted by Ghana Statistical Services, the Bank of Ghana, the Planning Commission and the Revenue Agencies.

#### Step II: Policy Review

Simultaneously with Step I, MDAs undertake a review of their policies, objectives, outputs and outcomes in order to estimate their broad expenditure requirements. Reports are submitted to MFEP and these constitute the information base for Step III.

#### Step III: Cross-Sectoral Meetings

Groups of MDAs are brought together to discuss their policy review reports in order to achieve coordination among them. The Chief Director of a lead ministry is responsible for the production of a report to MFEP.

#### Step IV: Ceilings

MDA expenditure ceilings are determined by MFEP in the light of revenue estimates. These ceilings are conveyed to MDAs as part of the guidelines for the preparation of the MDAs' budgets.

#### Step V: Review of MDA Strategic Plans and Budget

MDAs review their strategic plans including outcomes, objectives and costs.

#### Step VI: Prioritization and Presentation of MDA Budgets to MFEP

MDAs prioritize their activities and prepare their estimates to fit within the guideline ceilings.

#### Step VII: Budget Hearings

MFEP conducts budget hearings with each MDA to ensure that their estimates are within the ceilings and are consistent with their strategic plans.

#### Step VIII: Finalization and Approval of Estimates

MFEP submits estimates to Cabinet and then to Parliament for approval. The deadline for submission to Parliament is 30th November.

Any consultations with non-government parties occur outside the above processes

The tradition has been for officials to keep information close to the chest and to look with suspicion on those asking for it. Budget documents have tended to be released only on a 'need to know' basis. This explains why those in charge of the country's schools and medical facilities typically do not know to what budget allocations they are entitled. Civil society organisations complain that information is withheld and of non-cooperation from MFEP officials.

Without necessary information and with non-transparent processes, low public awareness of the deficiencies of the budgetary system is not surprising. Nor, therefore, is the absence of public pressure for improvements. However, it would be wrong to suggest that nothing is changing. Outside the formal processes sketched in Box 1, there is some consultation with expert individuals and organisations by the Minister of Finance. But while these consultations may be beginning to become established as a regular – and expected – feature, they are not yet institutionalised. They are also almost entirely Accra-based. There is no scope for District authorities to have direct inputs, even though much of their revenue comes from the central government. There remains a 'democratic deficit' here. The budget process has largely failed to adapt to the country's democratisation over the last decade or more. This contrasts with the situation in otherwise comparable countries, like Tanzania and Uganda, where budget hearings are far more open and transparent.

There are other signs of improvement. More information is gradually being made available. Interested parties are being given access to additional data. The annual Budget Statement has become more informative and efforts are made to distribute this nation-wide. There is a budget web-site. It is said that the standard of Parliamentary scrutiny is gradually improving and becoming less partisan.

These, however, are improvements at the margin. Essentially, the process remains closed and difficult to scrutinise. Getting hard information is still difficult. Those living outside Accra are particularly at a disadvantage. Given continuing poor levels of education, people's ability to contribute meaningfully to processes of accountability is also questionable, particularly in more rural locations. This is not, in other words, a situation which is likely to generate strong

in-built forces for self-improvement. Moreover, it should not be taken for granted that a government would feel moved to take action even in the face of criticisms. For example, when the reports of Parliament's Public Accounts Committee are submitted, remedial action is slow at best.

### *A political interpretation*

Political students of Africa have made heavy use of the concept of the *neopatrimonial state*, i.e. one in which there is only a weak sense of the public good or of public service, and where the resources of the state are at the disposal of the president and his ministers. As explained in *Policy Brief 1* in this series, observers have described Ghana's state in this language, drawing attention to the way public resources – jobs and the power to allocate rents, provide services, and determine policies and their beneficiaries – are captured by personal or private networks in the hands of dominant 'patrons'.

Now consider the condition of the budget just described. We can ask, what kind of budget process is likely to be most agreeable to politicians working within the patrimonial tradition, in which public resources are used to reward supporters and for the pursuit of private advantage?

First, it will be a closed system – as it remains in Ghana today – because the less that the public knows about what decisions are being made and why, the easier it will be to utilise public resources for the exercise of patronage, and the less the risk of being held to account. Second, the budget will be ritualised – again as it is in Ghana – meaning that the formal processes of budgetary expenditure planning have limited bearing upon how public monies are spent in reality. Maintaining the ritual is important, so that taxpayers will believe their monies are being used in their interests and are accountable. In an aid-dependent situation, the façade is particularly important in order to keep the donors happy. But the reality of ritualisation is that ministers and high officials are able to set aside what the budget says and dispose of public monies according to quite other decision processes.

The view expressed above may be regarded as excessively negative and it should indeed be

emphasised that there are signs of improvement. On the other hand, analysis in terms of a patronage-based model of politics helps to explain two other features of the contemporary scene. First, we have noted earlier the inflexible structure of expenditures, with salaries and other personnel costs tending to take priority over expenditures which would permit MDAs to promote development objectives, with salary expenditures consistently over budget, usually by large amounts, and the rest squeezed to accommodate this over-spending. The point here is that such biases are what a patrimonial model of politics would predict: the giving of precedence to the award and protection of civil service jobs over the longer-term promotion of development.

### ***The public service problem***

Looking further for explanations of the poor condition of the budget, the depleted condition of the civil service has a strong and direct – if ultimately superficial – bearing on the problem. The Government's *Ghana Poverty Reduction Strategy* is no doubt right in referring to 'unacceptably poor conditions' in the public service and in stating that, 'Significant improvements to the latter represent a component without which the government reform programmes and the Ghana Poverty Reduction Strategy are unlikely to succeed'.

The numerous reviews and evaluations that have addressed the issue of public service reform agree on several diagnostic points, as summarised in *Policy Brief 1*. The general record of donor-supported institutional-reform programmes over the past decade suggests a persistent inability to bite the bullet of large-scale structural change. The reduction in civil service numbers resulting from the first World-Bank-sponsored reform was reversed following the first Rawlings electoral victory, resulting in a chronic problem of widespread over-manning coexisting with shortages of key skills in many important areas.

A 2003 examination of public sector reform by a leading firm of financial consultants is written in similar vein. It describes the various reform efforts as 'not as successful as may have been expected' and cite in evidence capacity gaps, lack of ownership, inability to institutionalise change, low morale in the public service, weak human resource management and 'Doubts about the relevance and worth of the reforms'. It reports 'capacity gaps in almost all critical

posts in the service, due to the failure to address the fundamental issues of pay and conditions' and refers to 'the extremely weak human resource management of what capacity ... is left within the service'.

That part of the reform agenda relating specifically to the MFEP is itself an umbrella of programmes, called the Public Financial Management Reform Programme (PUFMARP). This has ten components, no less, including programmes for budget preparation through the introduction of a Medium Term Expenditure Framework (MTEF), the improvement of expenditure and cash management systems, procurement reform, fiscal decentralisation, etc. In some of these areas there has been genuine progress, for example in strengthening cash management and new legislation on public procurement procedures. Overall, however, it appears generally agreed that progress has been sparse and slow.

The problems of the PUFMARP programmes have been similar to those of the wider range of public sector reforms. They have largely been the brain-children of aid donors, leading to the usual complaint of weak political commitment. They have been fragmented and ill-coordinated. In aggregation, they have been too ambitious, exceeding the implementation abilities of MFEP and other agencies involved. In order to avoid the difficulties of political commitment and skill shortages, they have been biased in favour of technological fixes of doubtful sustainability.

Underlying all this, however, is the wider failure of successive governments to act decisively to restore the civil service to something like its former condition, when it had the reputation of being the most efficient in sub-Saharan Africa. The view presented above of the politics of the budgetary system helps explain why successive leaderships have not been very interested in change, because the situation has suited them rather well. Reform would mean greater transparency, more accountability, a slimming-down of the civil service and less scope for discretionary decision-making. Moreover, we suggest below, it would be likely to lose votes.

### ***Conclusion: what drivers of budgetary change?***

To sum up, the existing expenditure budget processes have been shown to be so weak as to be essentially

ritualistic, with limited bearing upon reality. It also remains a closed system, creating a 'democratic deficit', which helps explain why such a weak system continues to be tolerated. The problem is compounded by the continuing deficiencies of the civil service and the political disincentives for governments to improve the situation.

Our final question is through what means this situation might be improved. The argument of *Policy Brief 1*, that the best prospects for change lie in the progressive democratisation of the country's institutional and political structures, is applicable here. The budget case offers an interesting variation on this theme, however, for the present budgetary system reflects a 'democratic deficit', meaning that budgetary practices have not caught up with the democratisation that has occurred elsewhere.

The first task, then, is for budgetary practices to catch up with the wider processes of democratisation. A number of measures suggest themselves, none of which appear politically impossible:

- Since there is already a degree of informal prior consultation about the budget, this could be taken further and be institutionalised. It could also be widened, to bring in more interested parties, and become more systematic and less Accra-centred. One suggestion here is to build on the consultation processes that were adopted for the preparation of the GPRS. Another possibility is to adopt the Tanzanian practice of opening up budget hearings, with all interested parties having the right to participate.
- Greater consultation would, however, need to be accompanied by improved provision and dissemination of information. It could also be reinforced by a campaign to raise public awareness and improve media coverage of the issues.
- Revising the budget timetable could also help. Wider participation would require more time, and more time is also needed for Parliament to be able to scrutinise the budget properly. Parliament also needs more resources, including funds to allow it to obtain expert advice and to hire assistants.
- Another obvious step would be to include the District Assemblies in the process, bringing them directly into the machinery of consultation and

providing them, and the points of service delivery below them, with more information about their budgetary entitlements.

The question arises, what incentives are there for ministers to move in these directions? The purpose of these various reforms would be to improve accountability and reduce the scope for using public resources to further essentially private and/or sectarian objectives, but why should ministers want to restrict themselves in such ways? Well, Ghana's patronage-driven politics is already being modified by a deepening of democratic values. It seems likely that ministers' values reflect this shift, so they may exercise leadership in moving in the directions suggested above. They may be encouraged to do so (a) by the extraordinarily costly nature of present inefficiencies and (b) by the fact that none of the suggested steps seems politically risky and could be genuinely popular.

Perhaps the most serious obstacle is the difficulty of accomplishing the reforms of the civil service without which it would be difficult to make much progress. Here, the political logic is not very encouraging. In this area, democratisation may not contribute to a solution. For reasons summarised in *Policy Brief 1*, civil service reform is likely to be seen by politicians as a vote-loser. Preferring to provide benefits that are visible in the short term and do not incur political costs, governments may be reluctant to pursue it seriously.

Politicians' incentives structures may at present be too adverse. On the other hand, the deepening of democracy will increase the electoral import of governments' abilities to deliver promised services to voters. That, in turn, will raise the incentives to reform the public service, for it is unable to deliver well in its present parlous condition.

For public interest associations and political activists in Ghana, the implications are reasonably clear. To the extent possible, support should be given to those democratic pressures that strengthen politicians' incentives to improve governmental performance, and not to those that encourage short-termism and caution □□

### **About the publication:**

These Policy Briefs have resulted from collaborative research and analysis conducted by a multi-disciplinary team from the Ghana Center for Democratic Development (CDD-Ghana) and the London-based Overseas Development Institute (ODI) in 2003 and 2004. Historically-informed and less technocratic, they take a fresh look at where Ghana is coming from, where it actually is, and where it may be headed.

The Briefs come in two versions: a general analysis and four case studies on particular topics. Together they provide an overview of how social, political and economic forces have interacted in the country, and with what effects.

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